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Vol. 22, No. 28 July 11, 1988

NEWS DIGEST

Southern Hospitality seeks shelter under Chapter 11

NASHVILLE, Tenn. — Southern Hospitality, the 29-unit Wendy's franchisee that is based here, has filed for Chapter 11 bankruptcy protection.

The company's filing, which lists debts of $25.3 million and assets of $21.1 million, comes on the heels of founder and chairman Wayne Oldham's resigning so that he could return to show business.

Henry P. Hillenmeyer, who remains president and chief operating officer of Southern Hospitality, succeeded Oldham as chairman and chief executive.

Hurt by overzealous expansion a few years ago and problems with the Wendy's concept, Southern Hospitality has reported losses for more than a year.

The company lost $3.7 million, on $24.2 million in revenues, for the nine months ended Feb. 29.

Under the colorful Oldham, a former radio star, Southern Hospitality had flirted with a variety of hospitality startups, including an unusual type of convenience store and, most recently, a delivery-only pizza chain called Big O's.

Both ventures have been abandoned.

Court lifts nude ban during Dem convention

ATLANTA — A last-minute court ruling has blocked for at least 30 days a Georgia law that threatened to ban Atlanta's nude-dancing clubs from serving alcohol during the Democratic National Convention.

The ruling was in response to a suit filed in Fulton Country Superior Court by The Gold Club, one of Atlanta's major establishments featuring nude dancing.

The Gold Club attacked the law as being vague and too broad.

The decision could influence the outcome of another suit, filed by Atlanta's Cheetah III nude-dancing club, which challenges the Georgia law's constitutionality.

Marriott set to buy 91 Wag's for Allie's conversions

WASHINGTON — Blazing an expansion path for its new Allie's coffee-shop concept, Marriott Corp. has agreed to buy 91 freestanding Wag's family restaurants from the Walgreen drugstore chain for an undisclosed amount.

Marriott is expected to convert the units to Allie's outlets.

The same fate is anticipated for the 34 Bickford's family restaurants that Marriott agreed in May to acquire from Constar International, a packaging manufacturer.

The Bickford's units are concentrated in New England.

Marriott recently unveiled its Allie's concept, which features an all-you-can-eat buffet, in San Diego.

The company plans to transform Bob's Big Boy units into three more Allie's units in the next few months.

Bay State Motor Hotel gets HoJo franchising rights

BOSTON — In two separate transactions, Bay State Motor Hotel Trust, a hotel operator here, has acquired the rights to franchise the Howard Johnson restaurants and hotels in Canada.

The deals have also transferred ownership of all 17 Howard Johnson restaurants and hotels currently operating in Canada to Bay State and its affiliate, Orangeroof Holdings Ltd.

Orangeroof paid $24.8 million for Hanson Industries' 74-percent stake in the Canadian operations.

Hanson is the parent company of the Ground Round family restaurant chain.

Bay State acquired the remaining 26-percent interest from an unidentified Canadian family for about $6 million.

Bay State operates five Howard Johnson restaurants and hotels in the United States.

Wyoming, last in nation, raises drinking age to 21

CHEYENNE, Wy. — This sparsely populated state's restaurants have lost their distinction of being the only ones in the nation that could legally serve alcoholic beverages to 18-year-olds.

Bowing to pressure from the federal government, Wyoming this month raised its minimum drinking age to 21, following the lead of the other 49 states.

Four previous refusals to raise the age limit had cost Wyoming more than $8 million in federal highway subsidies.

In an attempt to reduce fatal automobile accidents, the federal government had denied highway funding to states that did not hike their legal drinking age.

H&H sets Bojangles' sale to franchisee Carabo

LAS VEGAS — Horn & Hardart has signed a letter of intent to sell its Bojangles chicken and biscuit chain to Greenville, S.C.-based Carabo Inc., the largest Bojangles franchisee, for $20 million.

Under the agreement, Carabo is acquiring the Bojangles name, the franchising system, which now includes 148 restaurants, and 39 company-owned units.

Horn & Hardart said Carabo will pay $16 million in cash and $4 million in a senior subordinated note for the chain. Bojangles reported revenues of $50 million in 1987.

Westbury hires Brennan to follow Boely at Polo

NEW YORK — The Westbury Hotel here has hired Terrance Brennan, formerly the chef at Annabelle's, to take over the kitchen of its highly regarded Polo restaurant.

The Polo's former chef, France's renowned Patrice Boely, was laid off after the Westbury decided to replace Polo's French menu with an American bill of fare.

Replacing Brennan as chef of Annabelle's is Jeremy Marshall, who moves up from the level of sous chef.

Dunkin' Donuts' cookie test uses new frozen dough

RANDOLPH, Mass. — Dunkin' Donuts is testing an improved fresh cookie program in 50 stores in Austin, Texas, and Boston.

The test involves a change in operations—frozen cookie dough is used instead of a mix—and modifications in packaging, pricing, promotion and merchandising.

"We will be selling the cookies by the half-dozen for $1.99 instead of individually," said Sidney Feltenstein, senior vice president of marketing for the 1,714-unit, largely franchised chain.

The cookies will be sold in a freestanding display case.

"Cookies aren't going to be 20 percent of our sales, but there is the potential for incremental sales gains, which could be meaningful," Feltenstein said.

Aspen food meeting diners told of hepatitis outbreak

ASPEN, Colo. — Several hundred people who participated in the Food & Wine Classic and attended a June 24 dinner at the Grand Champions Club here received overnight letters a week later from the sponsor, informing them that six cases of hepatitis A had been traced to an employee of the club.

According to health authorities here and Dr. Richard E. Hoffman of the Colorado Department of Health in Denver, two individuals who contracted the disease were employees of the club but were not involved with the preparation of the dinner that evening. Nor did they attend the event.

The other four victims were members of the club, according to a club spokesman.

"No one who attended the dinner has to worry," he said.

FOCUS | VIEWPOINT

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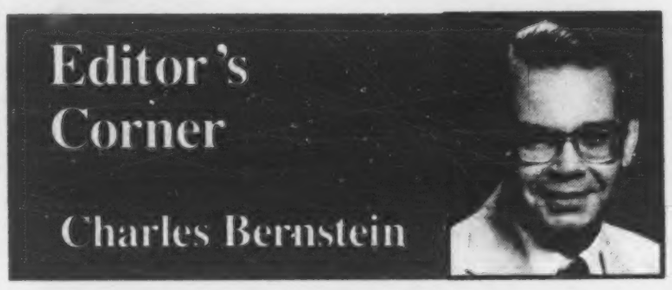
Service charges: Polls say no, but . . .

Restaurateurs, managers, waitresses, and consumers are heavily in favor of retaining tips as a customer prerogative and generally shy away from any thought of mandatory service charges.

The extent of these sentiments depends on which survey one believes or on the scuttlebutt one hears. A Chicago Tribune phone-in poll of customers in May, just before the National Restaurant Association Show, found customers in favor of tips and opposed to service charges by a 10-to-1 margin. A Nation's Restaurant News telephone Hot Line poll last month, as reported July 4, showed readers favoring tips by almost a 5-to-1 margin.



It is no surprise that customers want to exercise freedom of choice and are not anxious to adopt the "undemocratic" European method of compulsory service charges. Nor should it astonish anyone that waiters and waitresses are not opting for a "guaranteed" income through service charges and that managers and owners are not jumping on the service-charge bandwagon.

A hidden element in any public-opinion survey on a new idea is the intense pressure for the status quo. People tend to be creatures of habit and to opt for change only under severe conditions. It is more comfortable to stick with current modes.

But now it is time for everyone to seriously consider the merits of service charges—even those of us who believe in complete customer freedom of choice. The new Social Security tax on tipped income has radically changed the game, and this legislation is not likely to be overturned or radically altered despite valiant industry efforts.

A small but growing number of restaurateurs have responded with a mandatory 15-percent or 20-percent service charge. If more operators adopted the measure, what would be the consequences?

Clearly, such a process would drastically reduce the massive bookkeeping required to keep track of tip income under the new legislation. Besides cutting expenses, service charges could avoid the specter of IRS audits, which might find that employees do not report anywhere near all their tips.

Restaurateurs are up against the wall under the new laws and admittedly have to play defensive ball. With tips becoming a burden, service charges may be a necessary answer. They certainly are a simple, if unpopular, solution.

A switch from tips to service charges would put more emphasis on salaries. Rather than in effect saying that waiters and waitresses can derive much of their income from tips, operators would be compelled to provide most of the income in salaries—not necessarily a bad idea.

Customers today often tend to tip no more than 10 percent, causing resentment among waiters and waitresses who may have provided the best, most courteous service—all seemingly for naught.

Yet any service-charge plan has deficiencies. It would take away an incentive for waiters and waitresses to raise their performance levels. It could lead to shoddy or haughty service, such as is sometimes experienced in Europe, where mandatory service charges are common.

Service charges imply equal treatment of employees—a mixed blessing that could produce mediocre performances and an "I don't care" attitude.

Consumers—already upset each time prices rise—may resent being forced to pay an enforced charge. They might see it as a rip-off—especially since they would have to pay a sales tax on it.

They don't want to be deprived of their inalienable right to tip as little or as much as they please. If service is terrible, customers might leave no tip. Or if service is wonderful, they might leave 25 percent.

Some people have a difficult time in trying to figure out how much to tip and might appreciate an automatic charge whereby they can avoid a difficult choice. If they so desire, they could still leave a little extra for the waiter or captain—a possibility that might cause more confusion and anger.

One overriding point in this debate: With tipping still the custom at most restaurants, service and pride have continued to deteriorate.

Considering the added burden of the new Social Security tax on tipped income and the cumbersome bookkeeping requirements, now might be the perfect time to opt for change and try service charges as a less-than-perfect but practical solution to a serious dilemma.

LETTERS

Support in time of need appreciated by Karchers

Editor, NRN:

After reading Charles Bernstein's Editor's Corner in the May 23 issue, I felt I had to write a note. Carl and I and our families know we have many friends, but since the SEC issue was filed, we have been overwhelmed by the response and support we have received. Your article certainly reflected that.

On behalf of Carl, our families, and our company, I thank you for your very kind comments and support, which I am sure was read by many who know or are familiar with the Karcher name.

In addition, please, would you please pass on our thanks to your West Coast editor, Richard Martin, for his comments.

—Donald Karcher
president
Carl Karcher Enterprises
Anaheim, Calif.

Turnover mark ranges from 250% to 400%

Editor, NRN:

I appreciate your June 6 Editor's Column corner, "Help Wanted."

We are a company that prides itself on employee longevity. Our average worker has been with us about six years, which is very unusual for the computer software industry.

Because most of our clients are food chains, I noticed your remark that "turnover in restaurants [is] well over 100 percent." Our 26 years of experience in the industry leads us to believe the number is between 250 percent and 400 percent.

—Wendell Stephenson
chief executive officer
Stephenson Financial Services Inc.
Los Angeles

Attitude on turnover could prolong problem

Editor, NRN:

Professor Atid Kaplan of the Hotel, Restaurant, and Institutional Management Department of the University of Denver wrote a column in Nation's Restaurant News April 4 that was a disappointment to me—if it was serious.

He addresses the turnover situation in the hospitality field in a manner that, if passed on to future managers, will prolong our problems.

I sincerely hope that the article was written in jest.

—John Kettenhofen
director
Broyhill Inn & Conference Center on Appalachian State University campus
instructor
Restaurant Hotel Resort Management Program at ASU

Reader desperately seeks Buffalo's 'Beef on Wick'

Editor, NRN:

Professor Don Smith's viewpoint, "Buffalo entrepreneur's success cannot be measured," was a good lesson, as well as an obviously deserved tribute (along with the revelation that outside New York City, Los Angeles, and San Francisco, you can find food that is actually edible).

I live less than an hour away from Buffalo. I'd certainly make that drive (and be prepared to explain to the customs officer that I came over for a Beef on Wick, and not cheap shopping).

But where to go? Why couldn't you give the "poor devil" a plug? Okay, his name's not Wolfgang Puck or Michael Grisanti . . . but isn't he doing what a restaurateur is supposed to be doing—satisfying his customers with good food, and making a good living for himself in doing it?

Surely you wouldn't want your readers to roam the taverns of Buffalo in search of Beef on Wick that "looks like a lot." C'mon . . . what's the poor guy's name?

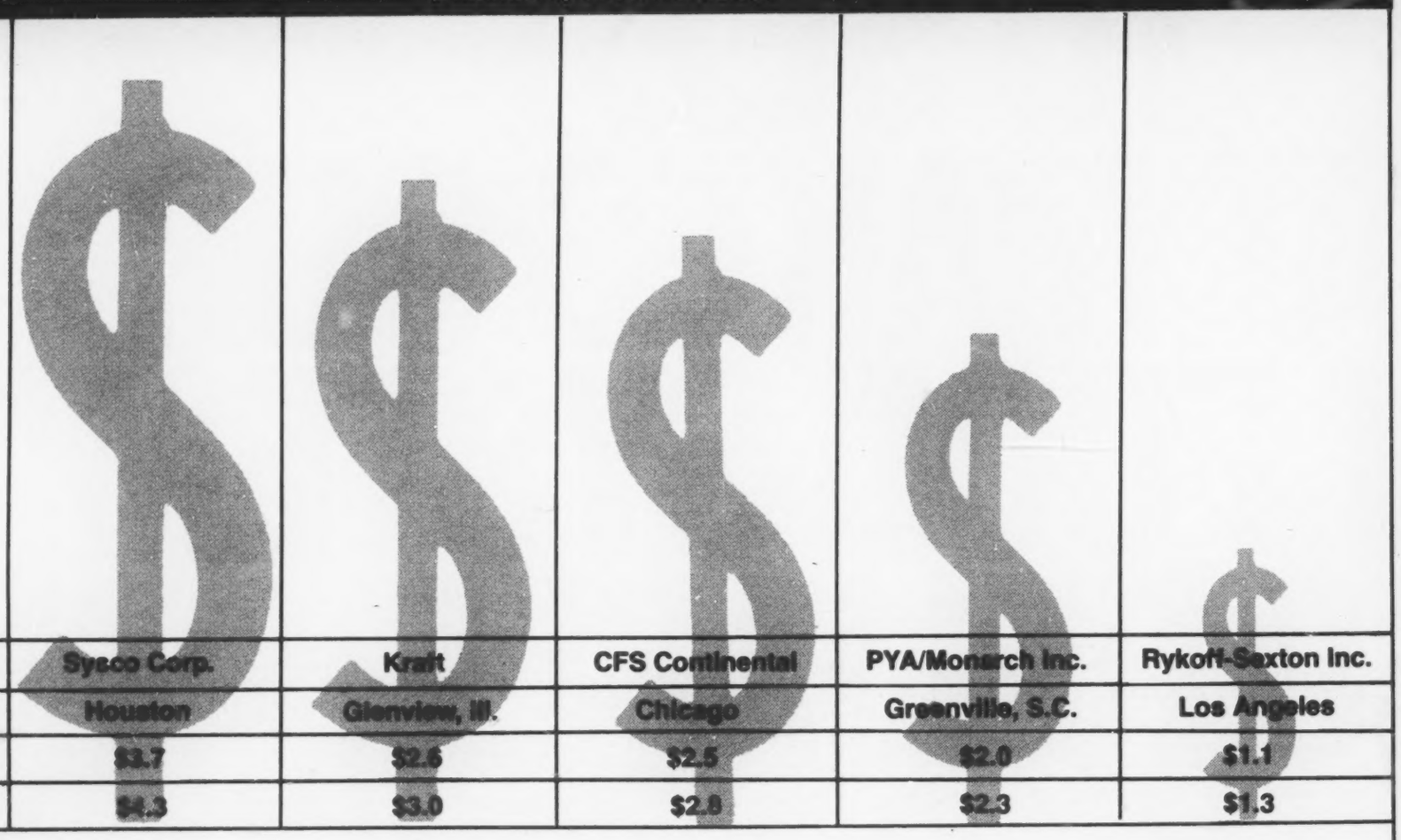
—Carolin Wilson
Del McMillan Design
Niagara-on-the-Lake, Ontario

More letters appear on page F8

FOCUS | COVER STORY

THE TOP FIVE FOOD-SERVICE DISTRIBUTORS

(Ranked by sales, $ billion)



Company	Sysco Corp.	Kraft	CFS Continental	PYA/Monarch Inc.	Rykoff-Sexton Inc.
Office	Houston	Glenview, Ill.	Chicago	Greenville, S.C.	Los Angeles
1987	$3.7	$2.6	$2.5	$2.0	$1.1
1988	$4.3	$3.0	$2.8	$2.3	$1.3

Source: NRN Research.

Notes: Sysco Corp.'s agreement to acquire CFS Continental from parent Tate & Lyle is not reflected here. Kraft Inc. is the parent of distributor Kraft Foodservice Group. It had formerly been part of Staley Continental. Sara Lee Corp. owns PYA/Monarch.

BIG DISTRIBUTORS STALK THE LOCAL SPECIALISTS

By Rick Van Warner

Local specialists still rule food-service distribution, but mega-distributors are gaining ground, gobbling up smaller players as they strive for national penetration and increased market share.

Although the top five superdistributors control about 12 percent of the $100 billion food-service distribution business, the conglomerates have changed the face of this traditionally fragmented, mom-and-pop industry. Forced to reckon with the broad-line giants, distributors everywhere have become increasingly sophisticated, deploying computer technology and expanding the range of services they offer customers.

Meanwhile, large groups of independent distributors have banded together through such organizations as ComSource and Code to offset the purchasing and marketing clout of the giants.

Large groups of independent distributors have banded together to offset the purchasing and marketing clout of the giants.

During the past decade the rise of national restaurant chains spawned a need for larger distributors that could provide the coast-to-coast consistency those operators demand. The largest distributors were eager to pursue the big dollars such multiunit accounts represented. But to service such customers adequately, the distributors needed greater geographic penetration and the inherent buying clout and cost efficiencies that accompany such penetration.

"It's important in servicing the chain business that you can provide the same look throughout the country," says Dean Nelson, president of Kraft Foodservice. "Once you've got the coverage, you need a minimum size, enough mass in the marketplace, to get the economies of scale."

In recent years Kraft and other giant distributors have turned to acquisition for rapid, efficient growth. Between 1982 and 1987, the big five superdistributors—Sysco, Kraft, CFS Continental, PYA/Monarch, and Rykoff-Sexton—collectively acquired 89 distribution companies, according to Technomic Inc., the Chicago-based consulting and research concern.

During the same period those superdistributors grew at a compound rate of 21 percent per year, but two-thirds of the growth was a result of acquisitions, Technomic notes.

And except for No. 2 Kraft, which has taken a breather from the acquistion game in recent months as it absorbs the numerous companies it has purchased, the trend shows little sign of letting up.

In a blockbuster deal announced recently, market leader Sysco has agreed to purchase No. 3 CFS Continental for $700 million. If completed, the merger will create a distribution giant with annual sales approaching the $7 billion mark.

"[Acquisitions] will continue for the next 10 years," says analyst James Murren of C.J. Lawrence, N.Y. "It's cheaper to acquire market share than to build it. There's only so much growth you can eke out from existing accounts.

"It's much easier to merge in this industry than in the restaurant industry because you're buying

*(See **MEGA-DISTRIBUTORS**, page F24)*

Sea fare warfare

Purveyors tackle seafood segment

By Jack Hayes

ATLANTA — Major multiline food-service distributors, hearing tales of treasure in grilled salmon, blackened tuna, and marinated mahi-mahi, are steering their ships for a high-seas confrontation with the nation's established fresh and frozen fish independents.

In what may become the fiercest campaign of the salty seafood wars, fighting will soon shift from the restaurant segment, where it has been raging for several years, to the wholesale niche, where key firms are eager to get their nets around long-neglected profits.

Operators will be baited with sharper pricing, broader service, and boatloads of new seafood product as the battling gets under way. But wholesale profits and a lot of ships are certain to go down before it's finally over.

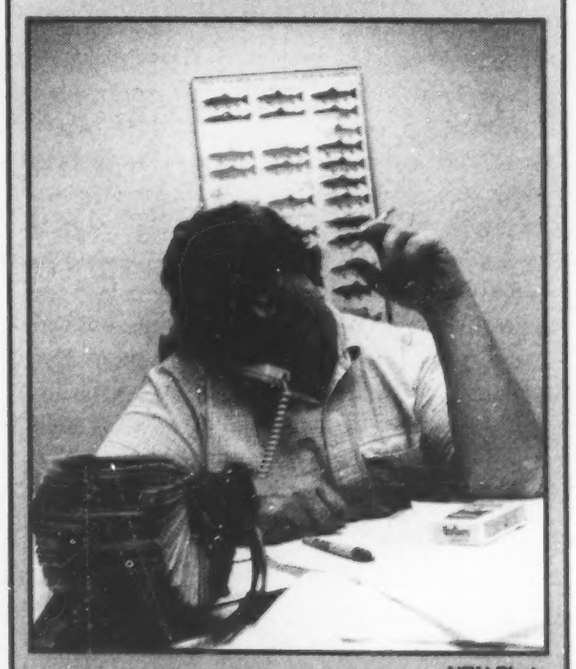
The reason? Seafood, like fresh meat and produce, is a specialized category that defies commodity-style management. With supply as unpredictable as the weather—and shelf life limited to seven days for most species—competitors are forced to learn a whole new language of distribution.

"It's the world's most perishable product," groans Joel Knox, president of Atlanta-based Inland Seafood, which ships nearly 100,000 pounds of fish a week to restaurants and food stores in his region. "It's not just something you buy and throw in a plastic tub," he adds.

At the same time, a specialist like Knox, who supplies every operator here from Red Lobster to the Ritz-Carlton—is confounded by the fact that he can't predict next week's inventory or its cost per pound.

"I can read stockyard reports and guess the price of beef in six months," suggests Knox, a former restaurant critic who launched In-

*(See **SEAFOOD**, page F24)*



NRN Photo

Joel Knox
Inland's president

FOCUS | COVER STORY

SEAFOOD DRAWS PURVEYORS

(Continued from page F21)

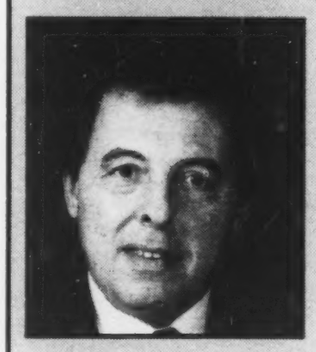
land 12 years ago because he couldn't find fresh fish in Atlanta. "But I can't guess the price of salmon from one week to the next," he adds.

Making matters worse, the market response to changes in fish pricing is still as unpredictable as the pricing itself. "It's a textbook example of supply and demand," laments an East Coast sales representative who sells frozen fish to fast-food and dinner-house chains. "It's getting more competitive every day," he says.

Thank goodness for substitute species like tile fish out of South Carolina and king clip from the South Pacific, adds this wholesaler, who saw his tonnage quotas threatened last year by what he describes as "true price resistance."

"Every Tom, Dick, and Harry are getting into it [the seafood distribution business], but they're going to find out that if you don't love fish, it's a stinky way of life," Knox threatens. "Are you ready for two different kinds of ice?" he asks future competitors.

Still, there's a lot of profitable fish coming out of the sea, according to the National Fisheries Institute, a Washington, D. C., trade group representing 1,100 seafood brokers, importers, distributors, and packing houses.



Mitsakopoulos

Based on the NFI's latest reports, Americans broke their seafood consumption record again in 1987, spending 17 percent more for fish and seafood products than they did in the previous year. Total consumption had climbed to a whopping 3.5 billion pounds last year.

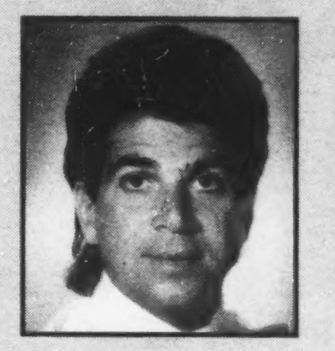
That news, together with reports of steady seafood menu growth, tells multiline distributors that specialty fish wholesalers are plundering the market pirate-style. Thus, they want more of the action.

Stan Deck, frozen merchandising manager with Hardin's-Sysco Foods, a unit of Houston-based Sysco, is among that covetous lot. While seafood sales have increased 25 percent to 30 percent a year at Hardin's against an overall growth rate of 15 percent, Deck promises, "We're going into fresh seafood sometime this calendar year."

Despite the added challenge for shipping, the greater potential for spoilage, and the possible damage to other products, Deck likes seafood. While the distributor did only 4 percent of its business in the category five years ago, seafood today represents 9 percent of Hardin's $152 million volume.

"It's low margin but high ticket," Deck reminds, adding, "Seafood wouldn't happen if we didn't think it would make us money."

Still, seafood distribution is populated by stubborn local and regional independents, many of whom were in the business before it became a hot sideline with interesting profit potential. They understand seafood is more than just inventory and delivery.



Buschmohle

"It's processing," says Jack Mitsakopoulos, president of Chicago Fish House, a $70 million Midwestern specialist that is considered to be one of the nation's largest independents. He says four or five majors are selling frozen fish in his market already.

Admitting that more major players will eventually get into fresh seafood, Mitsakopoulos says multiline distributors are eyeballing it as a logical step beyond produce and meat. What they don't see, he warns, is the labor intensity.

"With fresh whole fish, you've got heading, scaling, filleting, sometimes gutting," Mitsakopoulos says. "It's a bit more involved than boxed beef," he adds, suggesting the independents' strong suit is their specialization.

If nothing else, the increasing wholesale competition has created greater assortments of seafood for restaurant operators. Jonathan Landeen, executive chef at The Solarium in Phoenix, Ariz., says he's using three suppliers to target different seafood species.

"One ships out of Mexico, another out of both coasts, New Zealand, and Hawaii, and a third gives us shellfish," says Landeen, who competed in the American Seafood Challenge in Charleston, S.C., this spring. "On a 15-pound order, I've got plenty of choice," he adds.

Landlocked markets like Phoenix are accessing more fresh seafood for another important reason—air transportation. In fact, airlines have strengthened the role of coastal purveyers or fishing boat agents, who ship direct to many restaurants at prices below what local market distributors may charge.

Richard Peake, culinary director for Gilbert/Robinson's seafood restaurant division, which includes 10 operations under the Bristol, Devon, Chequers, and Hogate's names, uses that kind of buying arrangement.

"They guarantee the top of the trip," says Peake, whose Bristol Bar & Grill in Kansas City, Mo., was named one of the eight best seafood restaurants in the country by "USA Today." Each restaurant manager, he says, orders individually, based on food inventories taken twice a day.

The difficult side of such relationships, operators warn, is protecting freshness and quality. While it's one thing to send an unacceptable truck order back to the local seafood wholesaler, air shipments are a fish of a different flavor.

"The rapport has to be there," says Greg Buschmohle, who heads up the 17-unit L&N Seafood Grill, a division of Morrison's Specialty Restaurants. L&N managers, he says, attach to each seafood invoice a report card that says the shipment was inspected according to quality and freshness specifications.

"It's a checks and balance system," explains Buschmohle, whose operation buys $300,000 worth of fresh seafood a month from three direct suppliers in Pompano Beach, Fla., and Boston.

Red Lobster ships namesake by plane

By Jack Hayes

ATLANTA — If it weren't for the airplane, how many Maine lobsters would reach their restaurant destinations alive?

Not many, admits Red Lobster vice president Dick Monroe.

The more than 400 of the chain's restaurants offer live Maine lobster and eight to 12 other fresh species a day. To get the shellfish there from four central seafood distribution points in Boston, Seattle, Chicago, and Pinellas, Fla., Red Lobster ships via air. The rest of Red Lobster's product is shipped by truck through the Martin Brower system, which is also the major distributor for McDonald's.

"Our largest-selling category is fresh fish," says Monroe, whose company bought in excess of 50 million pounds of seafood last year.

"Shrimp from Thailand would go to Seattle, but a large quantity from Ecuador might go to three of the four main hubs," Monroe explains. "It's difficult to say, since Red Lobster buys from 32 countries."

As far as air freight packages are concerned, they're just another box to Red Lobster.

"They don't require any special handling," Monroe says. "They're sealed water tight and cooled with dry ice. Managers are trained to check them with a thermometer. If they're over 40 degrees, no good!"

Craig Drum, Eastern region manager with Delta Air Lines, agrees seafood is an important carriage item even if Delta doesn't ship for Red Lobster. "In 1987 we moved over 40 million pounds of seafood," he boasts.

"When it leaves Louisiana in the morning and a Midwest restaurant has it on the table that afternoon, you know it's fresh product," adds Drum, who admits that 65 percent of Delta's air cargo business out of Boston is seafood.

In fact, Delta's seafood rates are lower than its regular freight rates. The company charges $21 per 100 pounds plus 5-percent federal tax. There's a $30 minimum charge for air cargo, however.

"All of our East Coast stuff is flown in," says Michael Dubin, seafood buyer for Goldberg and Solovy Foods Inc. in Vernon, Calif. "But we also fly seafood in from New Zealand and Hawaii."

"The airlines have become a big player for us," admits Richard Peake, culinary director for Gilbert/Robinson's seafood restaurant division. "We order on Tuesday, and the fish are in the next morning."

MEGA-DISTRIBUTORS GROW

(Continued from page F21)

accounts, sales forces, and capacity."

Consolidation is rocking distribution at the regional level as well as the national level as distributors position themselves to service regional chains.

"I think we're going to see a continual wave of acquisitions," says Ron Paul, president of Technomic. "And there's another whole group of acquisition candidates, as second-tier distributors expand into regional markets."

"Regional consolidation is growing," Murren notes. "It's just not as publicized because most of the companies are private."

The effect of all of this activity on restaurant operators remains unclear.

"Ultimately, there should be payoffs to operators as distributors develop more operator-oriented services," Paul says. "And because of the cost efficiencies, the prices from majors may be equal or less. But it's still a local business, and the changes so far haven't been that dramatic."

"The impact for good or ill isn't really there one way or another," says Gilbert Kretzer, executive director of the International Foodservice Distributors Association. "If there's an impact on operators, it will be to the benefit of large, national fast-food chains."

Clearly, small and medium-sized distributors dominate the marketplace, but the emergence of the distribution Goliaths has spurred significant changes.

Buying groups of independent distributors have grown to sizes that rival the superdistributors in sales volume. ComSource, which is the combination of North American Foodservice Companies and Nifda, two groups that merged last year, boasts a combined membership volume of about $6 billion.

"In essence, ComSource pulls together the buying power of the independents and allows them to compete," says Dan Geisheidle, chairman of ComSource's executive committee.

As the structure of the distribution industry has evolved, restaurateurs have been the benefactors, Geisheidle explains. "The amount of sophistication that has come into this business has been a benefit to operators throughout the country; the whole level of sophistication has been raised," he says. But ultimately service at the local level is the prime concern of most operators.

"Operators still have to eyeball the local guy," Geisheidle says. "The ability to offer good service gets back to the local basis. You don't mandate service nationally."

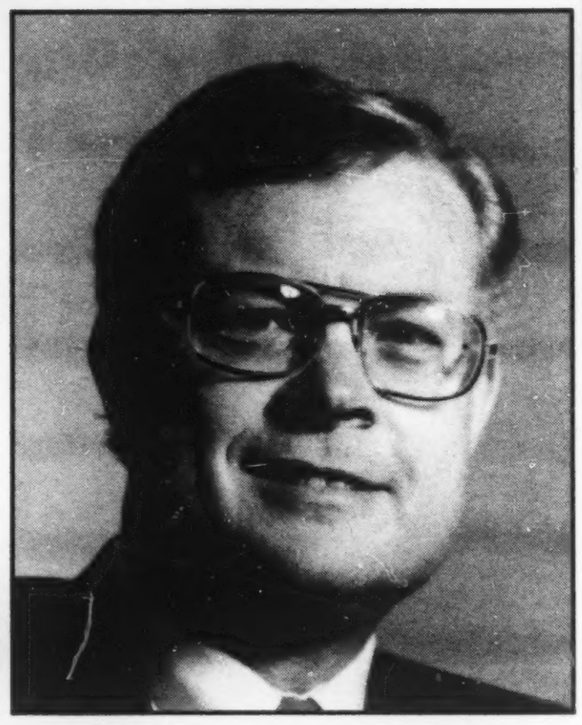
Kretzer concurs. "Even with all the acquisitions, distribution is still a local business. Market by market there are

*(See **MEGA-DISTRIBUTORS**, page F26)*

FOCUS | COVER STORY

Left: A Proficient Food Co. supply truck.

Below: Brock Partin, head of Proficient Food Co., the supply arm of Denny's Inc.



CHAINS FACE THE NEW AGE FOR IN-HOUSE DISTRIBUTION

By Richard Martin

LOS ANGELES — Winds of change are blowing through the world of chain-owned distribution subsidiaries, forcing restaurant companies to reconsider whether their supply divisions are assets to be nurtured or liabilities to be jettisoned.

As the biggest of the in-house distributors get bigger—or fall harder—others in the field either stagnate and are sold off or become more efficient and prosper, often through manufacturing specialization.

Enhanced restaurant operating efficiencies, more predictable levels of quality assurance, and commodity cost containment remain the prime reasons for chains that own their own distribution companies to persevere in a demanding, distracting, and usually profit-lean field.

But the unique rigors of distribution can sometimes cause companies to stumble under complex "vertical integration." Analysts say Burger King's supply sister, Miami-based Distron, has embarrassed parent Pillsbury through inept expansion that led to rising costs, mass defections from Distron's supposedly "captive" market, and estimated 1987 distribution-arm losses of $10 million.

In recent years the divisive obligation to simultaneously feed two masters—restaurant patrons and the supply-dependent restaurants themselves—has driven several "integrated" chains to sell their supply divisions to well-entrenched specialists in the mainstream distribution sector.

However, other chains that have mulled over such divestitures remain committed to in-house distribution arms that pull their weight and fulfill service objectives. Among those outfits is the far-flung Denny's chain, which launched its supply arm in an era when nationwide restaurant companies often regarded the mainstream distribution industry as too immature to accommodate their special needs.

Some chains are more than satisfied with their in-house distribution companies and regard them as growth vehicles.

The most savvy of the chain-owned manufacturer-distributors—analysts point to Wyatt Cafeterias' StarMark division as one such outfit—yield substantial food-and-freight cost savings that show up as sizable percentages of their parent chains' bottom line.

Strength in the in-house supply business is also evident in, for instance, the ability of the Hardee's distribution arm, Fast Food Merchandisers, to enhance that chain's growth while racking up some $550 million in annual distribution sales.

Conversely, Collins Foods International of Los Angeles and Morrison Inc. of Mobile, Ala., are two diversified restaurant outfits that recently sold their vast distribution divisions. Those subsidiaries were diverting resources from restaurant operations and sometimes straining relations with franchisees.

The unique rigors of distribution can cause companies to stumble under 'vertical integration.'

"When you're trying to get franchisees [of the Collins-owned Sizzler chain] to cut fresh meat and use fresh fish, you don't also want to be apologizing for late deliveries," says Collins chief executive Dick Bermingham.

He also wanted to narrow the chain's human-resources focus to restaurant operations people, who provide "transferability" potential that isn't shared with managers who specialize in warehousing and routing.

Whether companies keep their distribution divisions or sell them off may "all depend on [a chain's] distribution patterns and the relative strengths of [distribution division] management," explains Brock Partin, head of Proficient Food Co., the Denny's Inc. supply arm that has survived at least four proposed spin-offs.

Mirroring the mainstream distribution industry that is dominated by such giants as Sysco, Kraft, and Rykoff-Sexton, the specialized supply field run by vertically integrated restaurant companies is witness to both shakeout and consolidation.

One example of consolidation is Pepsico's merger of its Taco Bell and Pizza Hut distribution systems. Under the new umbrella of Pepsico Food Systems Inc. in Dallas, the combined operations are preparing to consolidate their "one-stop-shopping" operations even further.

In a large-scale test in the Southeast, PFSI is squeezing chicken

*(See **CHAIN-OWNED**, page F30)*

MEGA-DISTRIBUTORS GROW

(Continued from page F24)

some very sophisticated independent distributors who offer top-notch service."

Nonetheless, the full-line distributors do offer advantages. For instance, an operator may reduce the time he spends ordering and receiving by using a single vendor instead of a dozen distributors.

"A restaurant operator's life is made much easier by having a full-line distributor come to his door once a week with everything he needs," Murren said. "It's a one-stop shop, a great operational advantage."

In some cases size may open opportunities to take service to a higher level. Many distributors now provide menu planning, merchandising, quality control, and inventory control help to customers.

"As we've grown larger and added more products and capabilities, we've been able to offer a higher level of service," says Kraft's Nelson. "It's allowed us to move up the learning curve faster. We marry what we're doing well with what the companies we acquire are doing well."

One program that Kraft pioneered is a computerized system that links operators directly to the company. The system, named Kraft Link, allows customers to access price lists and product information and to place orders from their establishments. A second phase of the program provides software that helps the restaurateur manage his operation.

Currently, more than 200 customers utilize the Kraft Link system.

A computerized vehicle scheduling program, which will include computers on delivery trucks, will soon be in place to enhance the efficiency of deliveries.

Sysco also offers menu planning, merchandising, and many other operator programs.

"We do anything that will help our customer's business," says Sysco executive vice president James Lowrey. "Some of the companies emerging during consolidation are providing a wider range of services. We're all learning how to better meet the needs of our customers."

FOCUS | NRA

Sandwich shops to lead the pack in growth

By Bill Carlino

WASHINGTON — For the second year in a row, sandwich shop chains will grow faster, in both sales and number of stores, than any other category of franchise restaurant.

Based on figures chronicled in "Franchising in the Economy," an annual report prepared by the Finance and Management Division of the U.S. Department of Commerce, 1988 sandwich shop sales are expected to vault past the $1 billion mark for the first time—the highest increase in the industry, 31 percent higher than the 1987 figures.

"With a national trend toward more healthful eating, lighter fare like sandwiches will be in demand—particularly for lunch," says Andrew Kostecka, author of the report. "Sandwich shops appear to be one of the prime growth markets for prospective restaurant franchisors."

Total units for sandwich shop franchises will approach 5,000—a 28.8-percent jump from the previous-year figure.

The survey, compiled from 2,117 franchisor responses, including 488 restaurant firms, represents 99 percent of sales and establishment totals for the franchise industry in the United States.

If early 1988 figures continue their current pattern, estimated sales for restaurant franchise firms will reach $63.2 billion, an 11-percent hike from the 1987 results, and the category will rank third behind automobile dealerships and gas stations. Restaurant franchise units are staring at 6-percent growth of 90,000, a rate second only to that of service stations.

"There's been some talk about market saturation in restaurant franchising," Kostecka says. "But the restaurant franchise industry continues to grow, creating a vacuum for independents.

"We're seeing a slow decline in the traditional mom-and-pop operations," he says.

"The fastest growth by far in the entire franchise industry is in the service sector," Kostecka continues. "Company-owned franchises are dwindling as stores run by franchisees have assumed the majority of total sales and the highest percentage of units."

Of the more than 90,000 franchise units expected to be in operation this year, 64,000, or 70 percent, will be operated solely by franchisees. Franchisee-owned units will ring up $41 billion, or about two-thirds of the $63 billion in projected sales.

As one of the pioneering concepts in restaurant franchising, hamburger and roast beef stores continue to pace the industry in both total sales and operating units.

Sales from the 111 franchising companies with menus structured around hamburgers and roast beef will rise to just shy of $30 billion—nearly half of all restaurant franchises sales in 1988 and an increase of 10.1 percent over the 1987 figure.

Accounting for nearly 40 percent of all restaurant franchise establishments, hamburger and roast beef franchise operating units will top 35,000, a 6.3-percent jump from the previous-year results.

With their higher check averages and table service format, steak and full-menu restaurants average nearly $1 million per unit, well ahead of the industry median of $696,000 in sales per store.

SALES AND UNIT GROWTH
(Annual percentage change)

	Number of units		Sales	
	1987	1988*	1987	1988*
Hamburger	4.8%	6.3	8.3%	10.1%
Pizza	9.3	12.2	8.9	12.6
Chicken	4.7	5.3	10.2	12.9
Mexican	6.2	8.2	6.6	8.6
Seafood	6.6	8.7	8.5	14.2
Steak/Full Menu	4.3	8.6	8.5	11.1
Pancakes	5.0	7.7	8.7	11.0
Sandwich	23.5	28.8	23.0	31.0
TOTAL	6.6	9.0	8.7	11.2

* Projection
Source: U.S. Department of Commerce

SALES PER UNIT

	1986	1987	1988*
Steak/Full Menu	$939,592	$976,829	$999,608
Hamburger, Roast Beef	798,403	825,202	854,560
Pancake	657,572	681,213	702,006
Mexican	647,868	650,535	652,911
Seafood	541,585	551,306	579,081
Chicken	487,876	513,426	550,425
Pizza	459,866	458,103	459,645
Sandwich	253,556	252,462	257,051

Source: U.S. Department of Commerce

1988 SALES PER CATEGORY

	$ Billions	Percentage Change
Hamburger/Roast Beef	30.0	10.1%
Steak/Full menu	10.9	11.1
Pizza	9.2	12.6
Chicken	5.4	12.9
Mexican	3.3	8.6
Seafood	1.7	14.2
Pancake	1.5	11.0
Sandwich	1.3	31.0

Source: U.S. Department of Commerce

For the fourth year, Mexican food and pizza franchises are leading the ethnic food category.

Pizza franchise sales, which increased 25.6 percent and 20.4 percent in 1985 and 1986, appear promising enough to return to double digits with 12.6 percent, following an 8.9-percent climb in 1987. Pizza franchises account for 21 percent of all franchised restaurants.

Mexican food sales will level off somewhat, with a projected 8.6-percent increase in 1988, after skyrocketing 20.4 percent in 1986.

Aligning with the national trend toward more healthful eating, seafood franchise sales are experiencing a 14.2-percent sales increase over 1987 figures and an 8.9-percent growth in number of units.

Even food retailing from outside franchises is on the rise in 1988.

Not surveyed were food sales from the following speciality franchise shops: ice cream stores, coffee services, doughnut shops, bakeries, cookie shops, candy stores, and nut shops. They are expected to spill over $12 billion dollars, an increase of 9.1 percent since 1987.

Sales of food items from convenience stores are matching the 9-percent jump of the specialty shops. Food sales from convenience stores are expected to land in the neighborhood of $2.3 billion in 1988.

Of the 488 restaurant franchises surveyed, currently 174 have table service, while 314 are drive-thru. Of the 314 franchises that feature drive-thru or double drive-thru, 102 are hamburger or roast beef units.

"We haven't really seen much of a change in the format of service," says Kostecka. "However, in addition to obvious increases in sales and units, the restaurant franchise industry is leaning toward home delivery service and take-out. Even in some of the fancier private establishments and franchises that were not surveyed—like Chinese food."

Restaurant franchise firms with 1,000 or more units account for approximately 60 percent of sales and units. However, restaurant firms with 50 or less units account for more than 70 percent of total restaurant franchise companies.

In 1988, restaurants will rank first in total franchise employment for the third straight year, with 2.7 million workers. That figure represents nearly 40 percent of all employees in eating establishments.

California, Texas, Ohio, and Florida house the largest concentration of restaurant franchise units, with 33 percent of the U.S. total, while Texas boasts the highest individual number, 7,237 units, outdistancing second-place Ohio by 3,000 stores.

Internationally, hamburger restaurants accounted for more than half the international restaurant franchise units, followed by chicken with 30 percent. The greatest percentage of U.S. restaurants are located in Canada, with 28 percent, and Japan, 23 percent.

"There is a push with some of the bigger franchise chains, hamburgers in particular, toward international franchising," Kostecka says. "Expansion is not thought of on a national basis anymore, but globally."

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NEWSPAPER

Specialty distributors develop market niche

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Calif. wage hike sparks layoffs

By Richard Martin

SACRAMENTO, Calif. — California restaurateurs, stung by the July 1 enactment of a new $4.25 minimum wage and worried about the uncertain legal status of a "subminimum" scale for tipped employees, have begun laying off workers and raising prices to mitigate soaring operating costs.

Owners are resorting to a variety of overhead reduction measures amid growing fears that drought-related commodity inflation will soon compound price hikes by California distributors responding to their own inflated labor costs.

Officials of the California Restaurant Association said the situation could be worse for rural restaurant operators, who may have greater difficulties than their urban counterparts in passing the labor-cost increases along to less affluent customers.

The CRA said some members have reacted to the state's 27-percent increase in the bottom-tier wage by eliminating marginally profitable shifts, by purchasing prepared produce that allows them to trim kitchen staffs, and by laying off buspersons and turning their chores over to servers.

"The operators we've talked to are very emotional—their profit margins are slip-

*(See **WAGE**, page 66)*

Calif. operators turn to subminimum wage

Restaurants to pay $3.50 per hour pending state Supreme Court decision

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NRN Photo

A Houston Fajita Junction sports a double-drive-thru.

Fajita Junction brings fajitas to fast-food lane

By Tracey Taylor Woodard

HOUSTON — Fajita Junction is joining Two Pesos and Taco Cabana in a rapidly expanding field of regional Mexican fast-food chains, with two major differences: Fajita Junction specializes in fajitas, and it does so in a much smaller space.

"We sell fajitas from a box," said Buzz Roman, former Church's Fried Chicken chief executive officer who is acting as mentor for two other former Church's executives running the Fajita Junction operation.

"We've taken a taco menu and put it in a Church's-style unit," he said of the San Antonio-based fajita chain's signature scaled-down stores.

An average Fajita Junction unit measures 1,240 square feet and seats 42. An even smaller version is a double-drive-thru with 340 square feet and only 16 seats.

And Fajita Junction already has the main competition beat in numbers alone.

Chili's Inc.'s Taco Cabana, the granddaddy of the trio, was found-

*(See **FAJITA**, page 66)*

Fajita units skirting price hikes

Operators seek substitutes for skirt steak

Page 3

Triple whammy sends chicken prices soaring

One reason: new sandwiches at fast feeders

By Rick Van Warner

A surprise 1-2-3 punch—sudden new demand from fast-food restaurants, slowed production, and now the drought—is sending chicken prices soaring and forcing food-service operators to face some tough decisions.

"It's totally unexpected, a significant hit on our bottom line," said David Bennett, chief executive of 69-unit Kentucky Fried Chicken franchisee Morgan's Foods, noting that food costs have increased between 1 and 2 percentage points. "We're probably going to have to pass it on by raising prices."

Wholesale chicken prices are up about 50 percent from year-ago levels and have more than doubled in the past six months. The price of boneless chicken breasts has shot up even faster, from about $1.80 per pound this spring to nearly $2.80 per pound recently.

Although the hot and dry weather plaguing much of the nation hasn't been killing off flocks, the rising cost of grain to feed the birds is curbing already low levels of production.

"The feed situation will probably keep the lid on producer expansion plans," said

*(See **CHICKEN**, page 66)*

H&H finally finds Bojangles' buyer

By Rick Van Warner

GREENVILLE, S.C. — Ending a two-year search for a buyer, Horn & Hardart Co. has agreed to sell its Bojangles' chicken and biscuits chain to Carabo Inc. for $20 million.

Privately held Carabo, which is the largest Bojangles' franchise, with 21 restaurants, will pay $16 million in cash and $4 million in a senior subordinated note for the Bojangles' name, 39 company-owned restaurants, and the franchising system, which includes a total of 148 restaurants.

"When Horn & Hardart committed to divest itself of Bojangles', we obviously had a tremendous stake in what was going on," said Carabo chief executive William Webster here. "We're already very deeply committed to the concept. It made sense to make the next move and control our own destiny."

Horn & Hardart executives could not be

*(See **H&H**, page 66)*

FOOD WATCH

A very ice dessert

ATLANTA — Italian ice, a popular sidewalk dessert in the ethnic Northeast, is sweetening a new generation of taste buds in this Sunbelt capital.

Tiny Mama's Pizza in the north suburbs is moving 50 barrels of homemade Italian ice a week, only two months after introducing the product here. In fact, nine-year-old Mama's has begun supplying other suburban restaurants—Bronx Deli, New York Pizza Exchange, Candy Co., and Caproni's.

Lemon, cherry, and chocolate are the favorite flavors, said Mama's Marcy Ross, who guarantees 50 double scoops in each 2.5-gallon barrel.

—Jack Hayes

BERNSTEIN ON FAMILY DINNER HOUSES — Page F3

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July 18, 1988

NEWS DIGEST

RMS, Shoney's franchise, agrees to management LBO

MACON, Ga. — Restaurant Management Services Inc., a Shoney's franchise here, has agreed to be acquired by a management-led group for $45.6 million.

The leveraged-buyout group does not include Robert Sinclair, founder and chairman of Restaurant Management, which operates 30 Shoney's restaurants, 12 Captain D's, and four Lee's Famous Recipe units.

A previous buyout attempt by management fell through when the group failed to secure financing.

Taco Tico sold to group led by former Gatti's owner

WICHITA, Kan. — Taco Tico Inc., a 115-unit Mexican fast-food chain based here, has been sold by founders Daniel and Robin Foley to an investor group for an undisclosed sum.

The investors are headed by George Baker, a former owner of Mr. Gatti's Inc., and Gene Smith, a Louisville, Ky., banker.

Maxwell's Plum closes because of slow sales

NEW YORK — Maxwell's Plum, the singles-oriented restaurant and bar that typified the freewheeling culture of New York's East Side in the 1960s, has closed as a result of low sales and a rapid turnover of chefs.

The 22-year-old place's annual sales had dipped to $4 million, or roughly one-fourth of the amount posted during its heyday.

Warner LeRoy, the restaurant's flamboyant owner-operator, has changed chefs four times in the last three years in an attempt to breathe new life into what was once a celebrity hangout.

Cincinnati Arby's franchise sold to local businessmen

CINCINNATI — Thomas and David Lance have agreed to sell Restaurant Management Inc., a 33-unit Arby's franchise here, to an investment group led by local businessmen Mercer Reynolds and William DeWitt Jr.

The price was not disclosed.

Restaurant Management's new owners plan to bolster Arby's presence here by developing more units, said a spokesman for Reynolds and DeWitt.

Feds arrest 12 inspectors for alleged extortion

NEW YORK — Federal agents here have collared 12 more municipal health inspectors for allegedly extorting hundreds of thousands of dollars from restaurants by threatening to close or cite the places for sanitation violations.

Three consultants—David Black, Elissa Ruth Cohen, and Astley A. Campbell—were also arrested in the sweep. U.S. officials accused the trio of acting as bagmen, collecting the money from restaurants and delivering it to inspectors.

The roundup follows the April arrests of 28 other health inspectors who allegedly shook down restaurants for amounts ranging from $25 to $5,000. Hundreds of restaurants have been victimized by the corrupt inspectors "for decades," federal officials said.

El Pollo Asado tests Mexican cafe concept

PHOENIX, Ariz. — Following a year of heavy losses, El Pollo Asado Inc., the 50-unit fast-food grilled chicken chain based here, has spun off a new concept that features a Mexican menu and increased service.

Two El Pollo Asado Mexican Cafes already in operation here are performing at twice the sales volume of the units they replaced, said Ronald Paradis, Asado's executive vice president and chief financial officer.

The new concept sports self-service drink and salsa bars and serves wine, beer, and margaritas. Guests no longer pick up their orders at the counter but are served at tables.

McD doubles sales test of McChicken sandwich

OAK BROOK, Ill. — McDonald's has doubled the number of units participating in sales trials of the chain's McChicken sandwich, fostering speculation that the item may be the next addition to the fast-food giant's menu.

The sandwich is made with a deep-fried chicken fillet encased in a coating that reportedly absorbs less oil than do traditional breadings and hence renders the sandwich lower in calories and cholesterol.

The item, which is now available in more than 400 of McDonald's 7,600 domestic stores, replaces an earlier McChicken test product that was grilled rather than deep-fried.

Midway seeks to replace Gin as in-flight caterer

CHICAGO — Midway Airlines is seeking to replace its in-flight caterer, local entrepreneur Sue Ling Gin, with Dobbs International Services Inc., the nation's second-largest airline feeder.

Midway spokesmen said they were considering a change of caterers for economic reasons. Gin, who also operates two local restaurants, Cafe Bernard and Halsted Street Fish Market, could not be reached for comment.

Wendy's launches new national ad campaign

DUBLIN, Ohio — Wendy's has launched a national advertising campaign that focuses on drive-thru service and a new Express Pack packaged meal.

Meanwhile, the hamburger chain is preparing to enter into a joint promotion with Kellogg's, the cereal giant, and is advertising its SuperBar buffet in "a lot of local markets," said Charles Rath, Wendy's executive vice president of marketing.

In the newly launched network television commercials, a Wendy's customer waits in the drive-thru line, even though he is not in a car, to order the Express Pack.

The pack consists of a quarter-pound hamburger, french fries, and a soft drink.

Little Caesars adds item adapted from new Pan! Pan!

FARMINGTON HILLS, Mich. — Little Caesars, the 2,350-unit take-out pizza chain, has added a sliced pizza product called Baby Pan! Pan!—a scaled-down version of the system's new Pan! Pan! deep-dish pie.

A Baby Pan! Pan! order consists of two square Pan! Pan! slices sold for the price of one piece, according to Little Caesars.

Houston's Vallone eyes third Italian restaurant

HOUSTON — Tony Vallone, operator of the landmark Tony's and Anthony's Italian restaurants here, is developing a new local place that will feature the seafood specialties of Naples, Italy.

The restaurant, which is to be housed in a former supermarket in Highland Village, will feature grilled fish and other Neapolitan specialties, Vallone has indicated.

White Castle, Krystal turn to breakfast items

COLUMBUS, Ohio — The fast-food segment's two miniature-hamburger specialists, White Castle and Krystal, are turning to breakfast sandwiches in their bids to invigorate sales.

White Castle recently introduced two omelet sandwiches that sell for 99 cents—far more than the 39 cents charged for the regional fast feeder's signature square miniburger. The ham-and-cheese and Western omelet sandwiches resemble muffins and are heated in a device similar to a bun warmer.

Krystal, the Southeastern chain, is testing a 59-cent Sunriser breakfast sandwich, which consists of cheese, sausage, and egg.

MARKETING

Bob Evans tops in field, surveyed consumers say

By Bill Carlino

Diners ranked Ohio-based Bob Evans first among family restaurants, while Western Steer and Stuart Anderson's were voted best steak house and dinner house respectively, according to a Consumer Reports magazine poll of 32 chain restaurants.

From May 1986 through April 1987 Consumer Reports surveyed 220,000 diners' opinions about the nation's largest family restaurant, steak-house, and dinner-house operations. For the majority of chains, rankings are based on more than 10,000 responses.

Restaurants were evaluated on a five-point scale, ranging from excellent to poor, in terms of the following criteria: taste, selection, service, atmosphere, cleanliness, value, and child accommodations. Response points were totaled to obtain an overall score.

Although the survey data are somewhat dated, marketing executives agree that the results may serve to influence or deter both the current and future customer core.

"I think the survey helps in the fact that customers who have not tried us will give it a shot," said Tammy Roberts, a representative for Bob Evans. The 204-unit, red-farmhouse-themed restaurants scored high marks for taste, cleanliness, and child accommodation. "For those who have eaten here, it just reinforces the fact that Bob Evans has good food."

Mike Brandon, public-relations director at Stuart Anderson's, concurred that a restaurant's future business may vary according to the CR survey results.

"Logically, if your restaurant scores very well in any type of survey, it can only help your business and the opposite is true if you receive a poor rating," Brandon said.

Orlando, Fla.-based York Restaurants was one operation bruised by the CR survey results. The 100-unit chain scored low in five categories, including taste, selection, and service, and just average in the remaining two.

"To abide by that survey, you have to recognize that since the time it was conducted, approximately one-half of our operation has changed," said Charles Tate, marketing director at York Restaurants. "Since the survey we have placed additional emphasis on service and our 'cooked to order' philosophy. We've also added a dinner buffet."

While the food at Bob Evans and Marie Callender's received high marks, survey respondents were not so pleased by the fare at Howard Johnson's, which was rated as the worst restaurant in terms of food of all 32 restaurants surveyed.

Since the survey, however, the Marriott Corp. has acquired Howard Johnson's.

"Ironically, at the time of the survey, we would have agreed with the findings," said Fritz von Ullmer, Ground Round marketing director. The 158-unit Ground Round ranked last among dinner houses.

"On the other hand, if you polled diners today," von Ullmer said, "the results would be very different. We've upgraded our operation in many respects. But fundamentally the survey's classifications are subjective.

"How can you lump the Ground Round with Chili's or Chi-Chi's and call them all dinner houses? They're so different."

As with any restaurant or food-service operation, cleanliness is an important factor in determining repeat business. While few chains were singled out as being exceptionally clean, Waffle House, International House of Pancakes, and Ponderosa bottomed out in the cleanliness category.

"No doubt the findings disturbed us," said Stephen Pettise, International House of Pancakes marketing vice president. "But too often diners confuse atmosphere with cleanliness. No matter how clean a restaurant is, if it looks old, somebody will perceive it as dirty.

"However, we've had 70 consecutive months of comparable store sales increases, and I doubt any of the surveyed chains can say that. So I don't think business trailed off a great deal."

Budget-minded diners singled out Nashville, Tenn.-based Po Folks as a good value while they viewed such dinner houses as Steak and Ale, T.G.I. Friday's, Red Lobster, and Bennigan's as high-priced.

RESTAURANT CHAIN RATINGS

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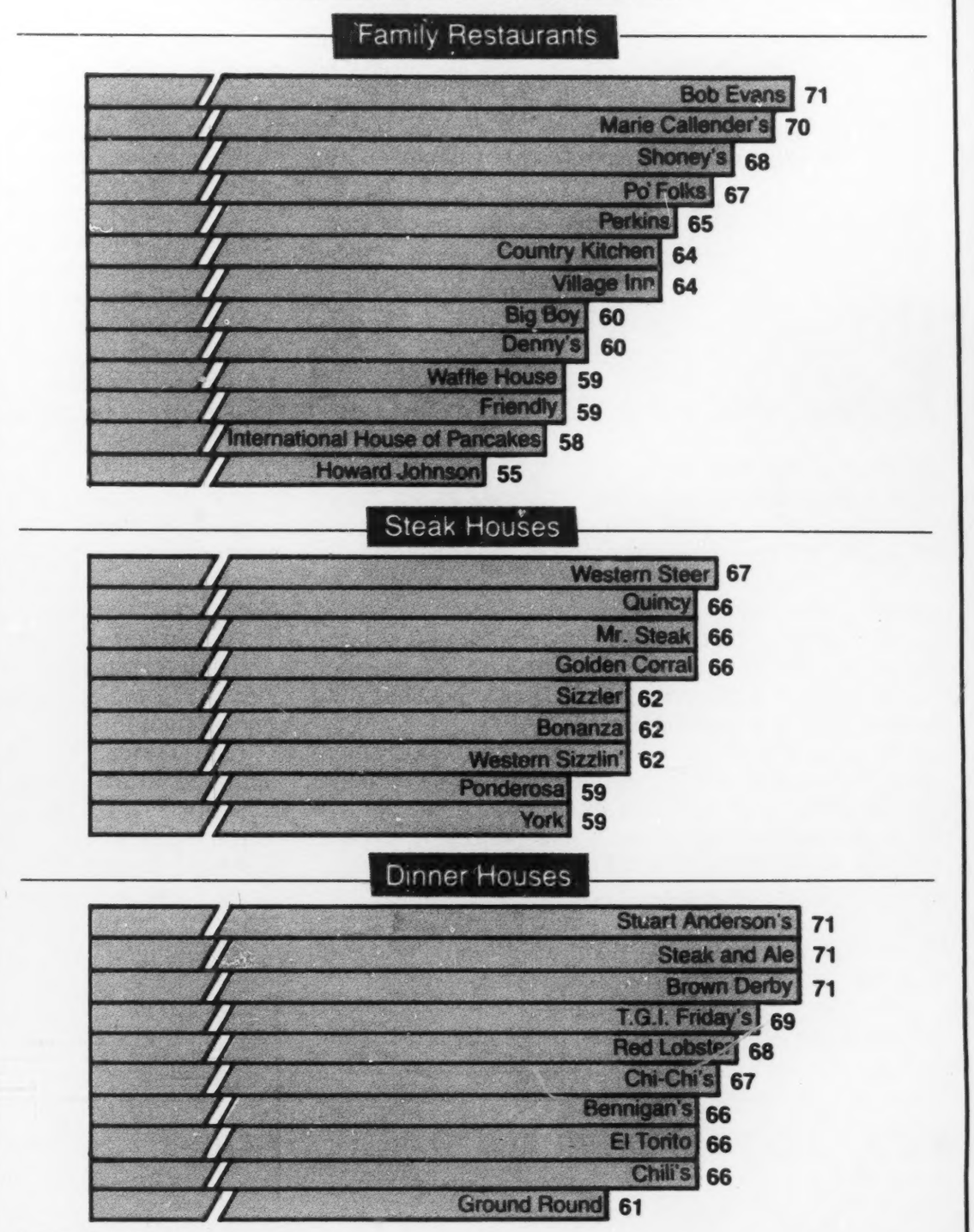

Source: Consumer Reports July 1988

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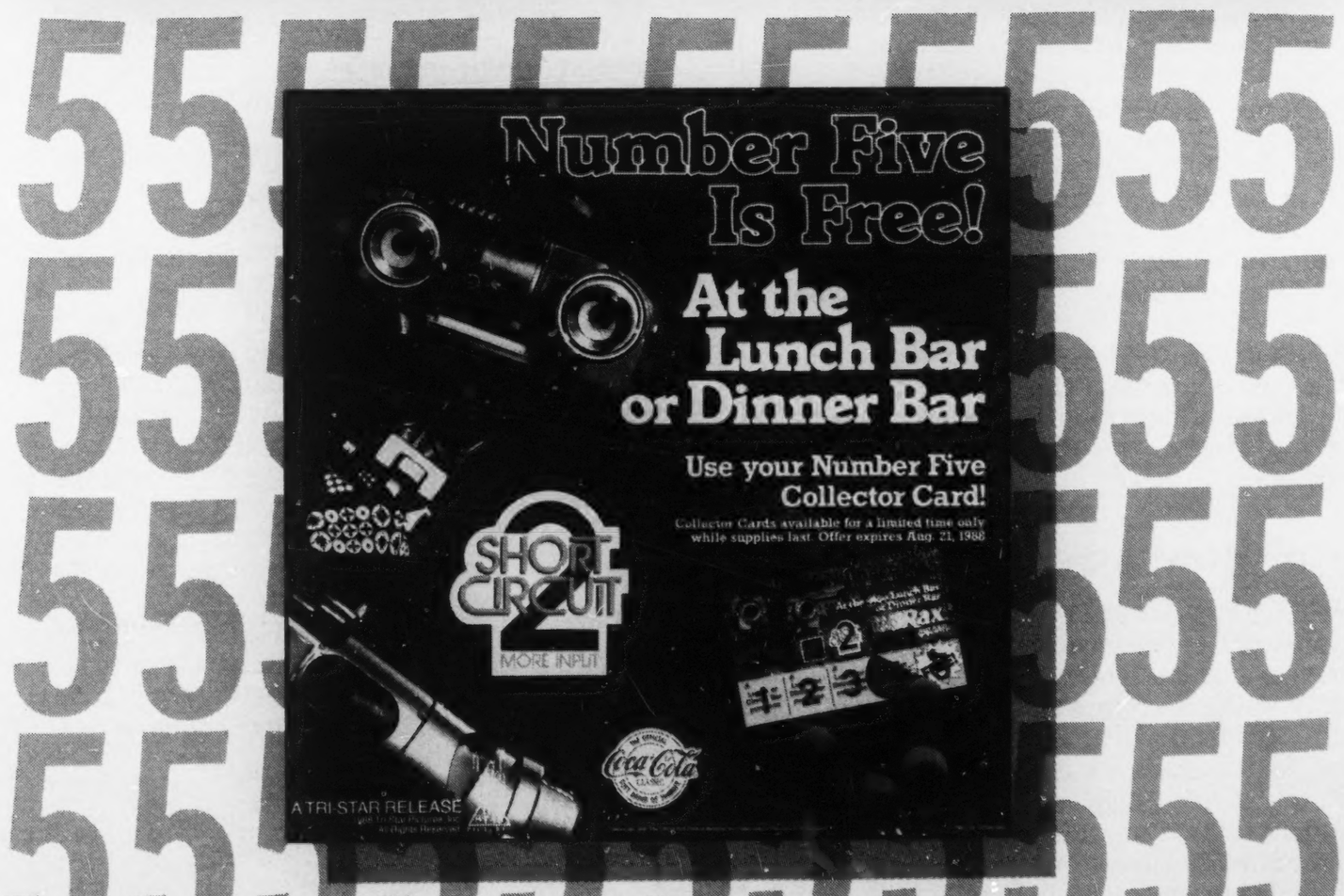
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"AdWatch" submissions should be either proofs, prints, or stills of a new print, direct mail, or television advertisement for a restaurant or restaurant chain, with accompanying information on the responsible agency name, if any, and the media time and placement schedule. Submissions should be sent to: Marketing Editor, Nation's Restaurant News, 425 Park Ave., New York, N.Y. 10022.

NRN MARKETING DIGEST

'Hamburger A' campaign cops Clio

DUBLIN, Ohio, — Wendy's "Hamburger A" television campaign has received a Clio award—the advertising industry's equivalent of the Oscar.

The campaign's "dry food" episode was feted in the Clio Best Humor category. In the award-winning spot, the consumer chooses Hamburger B in lieu of the Wendy's hamburger because it appears dry and it reminds him of his mother's dry cooking. The 30-second spot initially aired last September.

The Wendy's "Hamburger A" campaign is the creation of the New York-based Backer, Spielvogel, and Bates agency.

Hard Rock pub plugs menu

DALLAS — Hard Rock Times, a quarterly publication of the world-renowned Hard Rock Cafe, will supplement its club news updates and celebrity interviews with menu highlights from each of the 13 units around the world.

"We decided since the magazine was free to customers, it would lend itself to publicizing our various menu items," said executive editor Carla Peterson.

Beginning with the fall issue, Hard Rock Times is planning segment features on the chili and barbecue rib dishes of the New York and Los Angeles units.

Radisson and Edy's twin for summer

MINNEAPOLIS — The food-and-beverage department of Radisson Hotel Corp. has teamed up with the manufacturer of a regionally popular ice cream to launch a treat-oriented summertime promotion.

Under the Grand Temptations program, Radisson hotels will feature desserts, snacks, and drinks made with Edy's ice cream, which Radisson terms a "cult favorite" in the West.

FOCUS | VIEWPOINT

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The winning touch: family dinner houses

In this period of uncertainty throughout the food-service business, it seems that no segment is immune from flat sales and traffic declines. Customer resistance is noticeable almost across-the-board, leading to the possible conclusion that economic factors are responsible for the overall softness.

But evidence suggests that saturation in each segment is actually the prime source of the problem. While the potential pie is larger, each operator's share of it tends to be smaller as chains probe for an edge in bitterly competitive markets.

Fast feeders, coffee shops, family restaurants, steak houses, cafeterias, dinner houses, and fine-dining establishments all face this same struggle to attract customers who are demanding more value and quality in each segment.

But one niche is emerging with force and maximum potential. It is not as crowded as other segments, but it is the most popular in the minds and hearts of customers.

Perhaps the reason this segment is still not mobbed with entrants—although it may become so when operators see the potential—is that it involves three precepts, each equally important in combination: value, family orientation, and service.

We can identify the niche as value-oriented dinner houses. Their average price per customer ranges from $7 to $12, and they appeal to families rather than to singles. This is the segment that lightning has struck; it shows steady traffic and profit rises.

Each of five chains in this segment has its own special product identification and thereby prevails over its competition. The fact that each offers some form of service and has a specialty promotes the price-value image in the customer's mind.

One of the lowest-priced of the five is Los Angeles-based Collins Foods' Sizzlers. Once budget steak houses, they have been repositioned to steak, seafood, and salad dinner houses with an average per-person check of $7.50. Combination steak and seafood dinners plus a wide-ranging self-service salad and tostada bar have propelled Sizzler to a prominent spot.

Another, in a similar price range, is Dallas-based Chili's. Here again, the menu has been widened to focus on hamburgers and Mexican items. But Chili's biggest asset is its service flexibility, which enables guests to complete a meal according to their preferences, anywhere from 15 minutes to one hour. That leads to customer satisfaction and more turns.

The Orlando-based General Mills restaurant group figures in two of the five concepts. Red Lobster is in a $9-to-$12 range and offers seafood at prices lower than those of the competition. It is not designed to compete with individualized local seafood houses, which may be priced in a $15-to-$20 range, but rather to offer reasonable quality at affordable prices for families.

General Mills now has implemented the same idea on the Italian dinner-house side with its Olive Garden restaurants, with similar prices, which are less than its competitors', such as Imasco's Grisanti's dinner houses and Jerrico's Florenz. Again, the Olive Garden competes only at the family restaurant level.

Finally, Dallas-based Tony Roma's Place for Ribs is well-positioned productwise and pricewise to continue soaring in its niche.

Each of the five chains is pegged to a family market—a departure from the singles push of the early 1980s. Some might place T.G.I. Friday's, Houlihan's, Bennigan's, and Houston's in a similar category. But they don't have the same family appeal.

Denver-based Le Peep, the signature breakfast chain, fits the winning formula with its upscale full-service breakfasts. But it is not open for dinner, and its appeal is thereby limited.

Detroit-based Charley's casual seafood dinner houses, which Richard Sikorski bought from the C.A. Muer Corp., may also qualify, but it is too early to tell. Its $10-to-$15-per-person check is higher than Red Lobster's, and it has only six units thus far.

In a recent Nation's Restaurant News-sponsored survey of consumer value perceptions, a cross-section of 1,000 persons polled indicated a willingness to pay almost double the price for the same type of food if the restaurant provided service and if it offered a more positive image. It is no wonder that operations of all types are trying to call themselves family restaurants.

Family-oriented dinner houses with genuine price-value are filling an ideal niche in the middle of the market—above coffee shops and below tablecloth restaurants. Lest operators everywhere try to copy the apparent winning formula, it should be remembered that each of these successful chains has developed its own nuances and individual personality.

LETTERS

Time has come to cater to needs of employees

Editor, NRN:

Your recent Editor's Corner comments about building a retention-based employee program are "right-on."

I think a program coupled with another need in this country can be quite productive. The other need is to teach economics to our young people—something they are not receiving in the public educational system. Consider the number of young people who work in entry-level fast food and you are considering a vast number of tomorrow's voters and leaders.

If there is a sin in the capitalist concept, it must be in the secrecy of the rewards to the capitalist-entrepreneur involved. This is particularly true when a profit-producing unit exceeds its reasonable profit-producing levels and produces excessive profits without rewards being passed back to those who do the work.

In the absence of information each worker is free to speculate on the profits made—and they often feel this is as high as 50 percent or more. Why not replace this unreal picture of capitalism with some elements of truth?

The program I envision combines a weekly profit-sharing payout even to the lowest employee, passing the entrepreneurial drive down to this employee, building a team, and providing a reason to stay on the team as a worker. This can be accomplished. A single letter is too confining to define this, but I have thought it out. It will work. It can be tied to cash flow.

I think it is time for those of us who have gained by gambling on a profit to undertake the task of proselytizing our workers to look with understanding on the system. The food-service industry can do it. We need the leaders to lead us in this.

—John E. Mossman
Bakersfield, Calif.

Barbero's Seafood Grotto offers best of the Midwest

Editor, NRN:

During a recent conversation with a restaurateur in New York, we started talking about my favorite restaurants.

Being a captain with Eastern Airlines, I have the privilege of visiting many cities, large and small in size. I started talking about a restaurant in Madison, Wis., called Barbero's Seafood Grotto.

I have to say that this restaurant is truly one of the outstanding restaurants I have fine-dined in during the past 20 years. To find such an outstanding seafood restaurant in the Midwest was quite a surprise.

The menu had everything from fresh Holland Dover sole to a selection of fish dishes found primarily in the Hawaiian Islands.

It was suggested to me to write to your newspaper about my unique find in the Heartland of America.

—Thomas V. Thomas
Edgewater, N.J.

Loyal managers: a key to any operation's success

Editor, NRN:

A copy of your Editor's Corner column, "Treat the unit manager like a king," was recently given to me as a reference or inspiration in my effort to design an incentive compensation plan for our company's restaurant managers.

We currently operate four franchise restaurants with three more locations under development. Our base salaries and fringe benefits are competitive by local standards, and most of our managers and assistant managers have been with the company for several years.

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—Norma L. Calhoun
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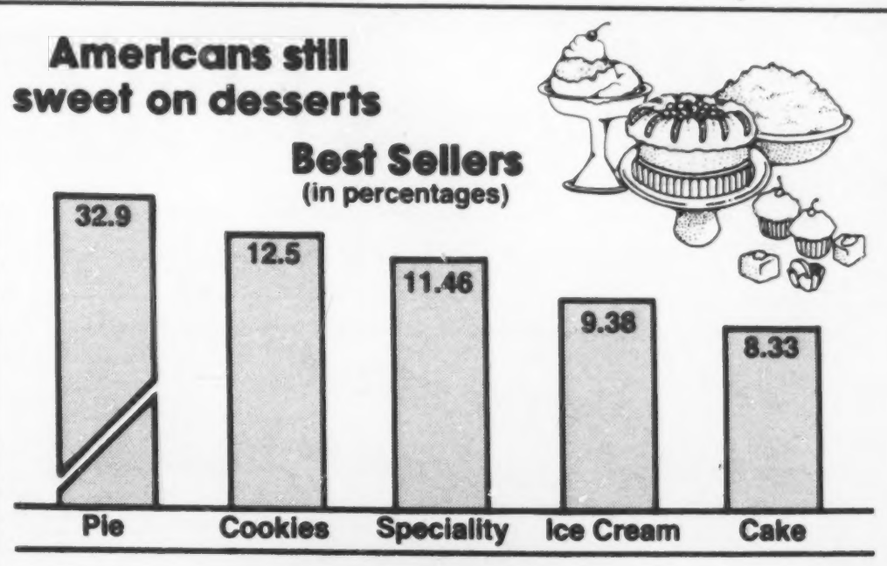

Survey conducted by Northwest Foodservice & Hospitality

U.S. wild for desserts despite health warnings

SEATTLE — Despite the trend toward health-conscious eating, Americans still love their desserts.

According to Sandy Moreale, a registered dietitian at the American Dietetic Association here, Americans are hearing the health messages about the unhealthy nature of calorie-laden foods, but they are responding in a haphazard way.

Americans are more aware than ever before of what they eat. If they decide to eat something that is unhealthy for them, they make sure it counts. Thus, instead of ordering a simple dessert that is bad for them, they take things a step further by ordering a gourmet dessert item.

The exercise trend has served to complicate matters by sparking the "work out, pig out" concept. "They go to their health club and do their hour of exercise that will entitle them to little treats on the way home," Moreale was quoted as saying in Seattle-based Northwest Foodservice and Hospitality magazine.

The magazine, published by the Washington Restaurant Association, found in a survey of its members that pie was both the best-selling dessert and the most profitable.

Thirty-three percent of the operators questioned said pie outsold all other desserts, compared with 13 percent for cookies, 12 percent for specialty items, 9 percent for ice cream, and 8 percent for cake.

Eighteen percent of those polled said pie yielded the most profits, surpassing ice cream, which was cited by 16 percent; cake, at 10 percent; specialty items, also at 10; and cookies, 9 percent.

The unhealthy trend is not limited to desserts, however. It actually applies to all meals eaten away from home.

The National Restaurant Association's Anne Papa told Northwest Foodservice and Hospitality that while 60 percent of restaurant customers modify diets at home, only 40 percent do so when eating out.

A 1986 Gallup Poll conducted for the NRA found that American diners can be separated into four categories: traditional eaters (37 percent), weight-conscious eaters (28 percent), health-conscious eaters (19 percent), and the uncommitted (16 percent).

Traditional eaters are those who favor red meat, fried foods, and non-diet drinks. Weight-conscious eaters turn to low-calorie dressings, entrées, and drinks; sugar substitutes; and raw vegetables.

If Americans decide to eat something unhealthy, they make it count.

Health-conscious eaters adapt their diets for nutritional and health reasons. They prefer broiled meats, wholegrain breads, skinless poultry, fresh fruit, and no salt.

The uncommitted are the people who don't really think about what they're eating. Papa said their habits resemble the health-conscious eaters in that they "frequent fast-food restaurants, but they hit the salad bar."